



Sandia National Laboratories

Operated for the U.S. Department of Energy's
National Nuclear Security Administration
by **Sandia Corporation**

John F. Slipke
Vice President
Human Resources & Communications

P.O. Box 5800
Albuquerque, NM 87185-0186

P.O. Box 969
Livermore, CA 94551-0969

Phone: (505) 844-8516
Fax: (505) 844-5238
Internet: jslipke@sandia.gov

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Dear Sandia *Medicare* Retiree:

Last week, Sandia announced an important new healthcare strategy for current employees and retirees. The strategy includes the introduction of a new healthcare plan, Sandia Total Health, for active employees and PreMedicare retirees. This plan will be introduced in 2010 with full implementation in 2011. The introduction of this new plan will NOT affect your coverage in 2010 or how Sandia subsidizes the cost of healthcare for current retirees. Only active employees and PreMedicare retirees will participate in the new plan, which we are calling Sandia Total Health.

These changes are part of Sandia's deliberate approach to managing for the future and addressing future cost challenges. It is no secret that Sandia is operating in a rapidly changing world and a challenging economic environment. The economic and global landscapes are changing, as well as the national security environment. Sandia itself is changing: its leadership, budget, workforce, infrastructure and investments.

In this changing environment, Sandia faces unprecedented financial challenges associated with future pension and healthcare costs. Based on current assumptions, Sandia is estimating that approximately \$2 billion in pension contributions will be required from 2011-2020. Annual healthcare costs are projected to increase to approximately \$250 million by 2020. Liabilities associated with post-retirement healthcare alone now exceed \$1.2 billion. These projected pension healthcare costs are unsustainable given Sandia's future budget forecasts.

As many of you know, healthcare costs have been increasing at a rate five times faster than inflation. These costs will continue to escalate in the future. The changes announced last week are part of a healthcare strategy designed to control rising healthcare costs. While cost is important, the changes also represent Sandia's strategy to engage in a partnership with employees and retirees to improve health and wellness and allow employees and retirees to have more control over their healthcare spending. Sandia's healthcare strategy is based on the following goals:

- Offer high quality benefits that are competitive with similar research organizations and a select group of large industrial companies.
- Manage future costs and liabilities



Exceptional Service in the National Interest



- Encourage healthcare consumerism and improve overall health through an integrated health and wellness program
- Minimize healthcare network disruption
- Effectively respond to our contractual commitments to the DOE
- Reduce administrative costs

As a Medicare eligible retiree, you will experience changes in 2011 in the way that Sandia provides Medicare related health benefits. Currently, Sandia offers retirees the choice of a Sandia-sponsored Medicare Supplement plan (the UnitedHealthcare Senior Premier PPO Plan) or Sandia-sponsored Medicare Advantage plans. These plan options will continue in 2010. However, beginning in 2011, Sandia will only offer Sandia-sponsored Medicare Advantage plans for current retirees. Our goal is to offer high quality Medicare Advantage plans that provide retirees many of the same healthcare providers they have today.

This change in 2011 is part of Sandia's overall strategy to control future healthcare costs and manage our future liabilities. Sandia will continue to strive to offer high quality pension and healthcare benefits to eligible retirees even in this challenging financial environment.

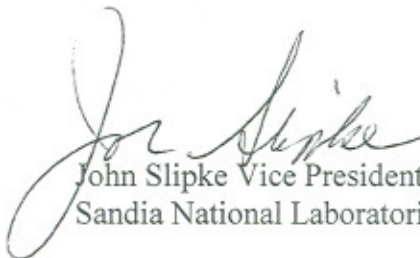
Details about the plans that will be available to you in 2011 are still being worked out. As always, we're committed to communicating the changes to you in a timely manner.

What's Next

The July 16 edition of the *Lab News* introduced the program and you'll receive more information about your 2010 healthcare choices before Open Enrollment in November. You'll also be invited to a retiree meeting this fall.

Again, there are no changes to your coverage for 2010. As in past years, if you want to keep the same medical and dental coverage next year that you have today, you won't need to do anything.

Sincerely,



John Slipke Vice President
Sandia National Laboratories